



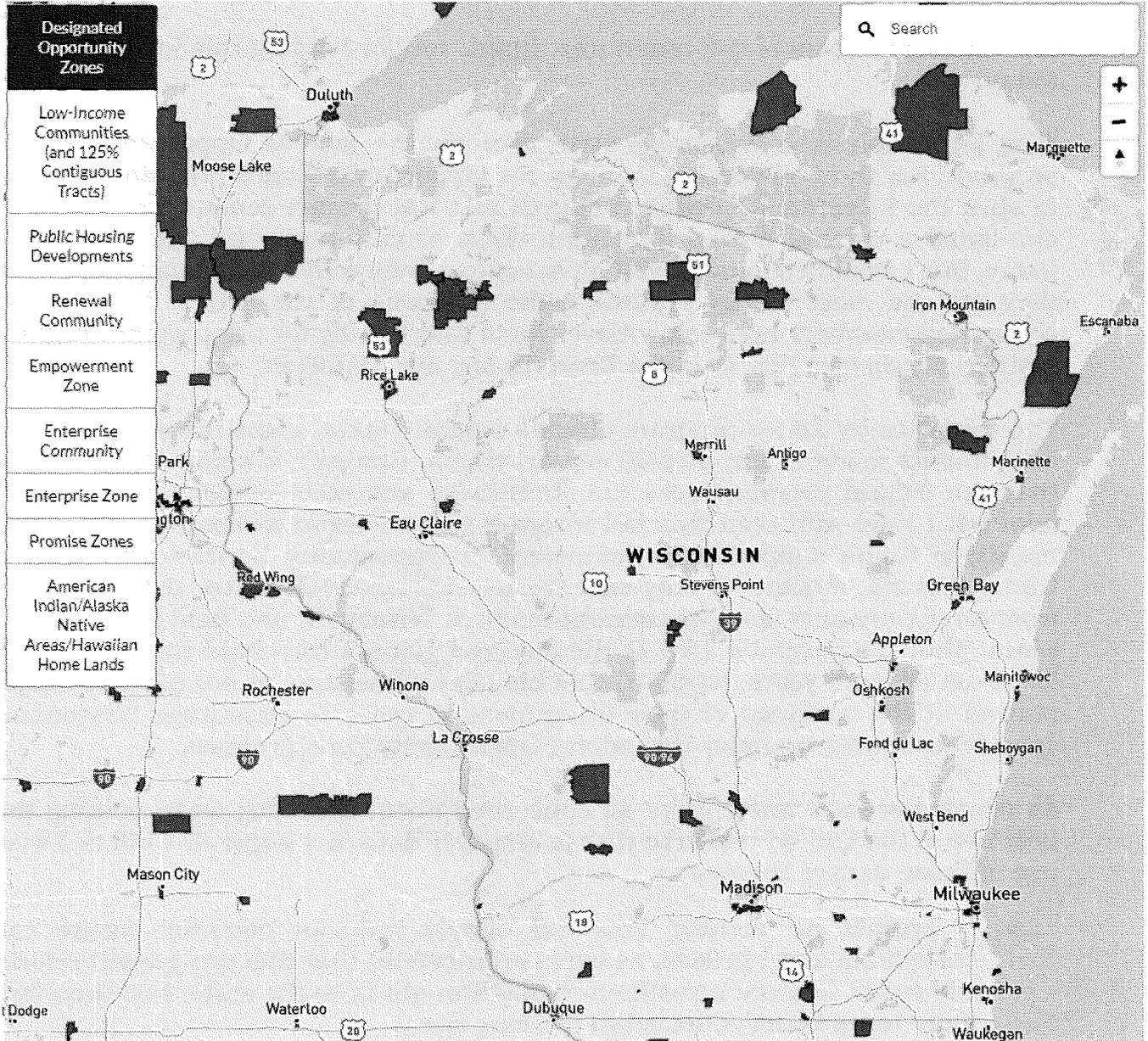
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STATE SENATOR

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<http://legis.wisconsin.gov/senate/18/feyen>

View this map online at <https://www.wheda.com/Opportunity-Zones/>





NANCY VANDERMEER

STATE REPRESENTATIVE • 70th ASSEMBLY DISTRICT

TO: Honorable Members of the Assembly Committee on Ways & Means

FROM: State Representative Nancy VanderMeer

DATE: February 6, 2020

SUBJECT: Testimony in Support of Assembly Bill 532

Thank you Chairman Macco and members of the Assembly Committee on Ways & Means for holding a hearing on AB 532 today. I want to first state that this is legislation that takes advantage of an already existing federal program, utilizes an existing framework, and incentivizes investment within the state of Wisconsin. Furthermore, under the proposal, this investment will be driven toward some of the most economically challenged and under-developed demographic areas of our state.

The Opportunity Zones community development program was established by Congress with bipartisan support in 2017 to encourage long-term investments in low-income urban and rural communities across the country. The innovative program offers tax incentives to encourage investors to re-invest their unrealized capital gains into Opportunity Zone projects, including residential development and business expansion.

Low-income community census tracts are used to determine eligible Opportunity Zones to ensure the program drives private investment to the nation's most economically challenged communities. Wisconsin has 120 Opportunity Zones, which are in both urban and rural parts of the state. I think that aspect is one of the reasons we have such a wide array of legislative support from both sides of the aisle for this legislation.

The program strives to unlock an estimated \$6 trillion in unrealized capital gains in the United States. Individuals who invest in Opportunity Zones – through qualified Opportunity Funds – receive tax incentives including tax deferral on the invested capital gains and tax-free growth on the Opportunity Fund investment earnings if the investment is held for at least 10 years. In addition, investors receive a 10% reduction in the original capital gains tax if the Opportunity Fund investment is held for at least 5 years and a 15% reduction after 7 years. During the last legislative session, Wisconsin incorporated the federal Opportunity Zone tax provisions into state law, which means the deferral and exclusion treatments apply when calculating state income taxes.

AB 532 would double the Opportunity Zone tax exclusion at the state level for investors who invest in Wisconsin Qualified Opportunity Funds – which are required to hold at least 90% of their assets in Wisconsin Opportunity Zone projects. More specifically, investors would receive an additional 10% state capital gains tax reduction if they hold an investment in a Wisconsin Qualified Opportunity Fund for at least five years, and an additional 15% after seven years. As initially mentioned, this legislation will encourage Wisconsin investors to keep their investment dollars in Wisconsin, driving much-needed private



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STATE REPRESENTATIVE • 70TH ASSEMBLY DISTRICT

capital to economically challenged areas of the state and accelerating economic growth and job creation across the board.

I'm sure you've noted that Senator Feyen and I have introduced an amendment to the bill. I'd like to point out that the amendment is solely technical in nature and was drafted at the request of the Department of Revenue to better align some dates for tax/tax reporting purposes and also better align the legislation with the federal tax code. The amendment does not alter the policy implications of the proposal.

Again, thank you for the opportunity to be here today and the opportunity for a public hearing on this legislation.



JILL BILLINGS
STATE REPRESENTATIVE

February 6, 2020

Chairman Macco and Members of the Committee:

Thank you for holding a hearing on Assembly Bill 532, which provides an additional incentive for Wisconsin individuals to invest in opportunity zones in our state.

The opportunity zone program was enacted as part of the federal tax reform bill passed in 2017. It serves as a local economic development tool, by spurring job creation and development in economically depressed areas through incentivizing private investment. In 2018, following the passage of the federal tax reform bill, states nominated census tracts to be designated as qualified opportunity zones. These designated areas were generated by local communities, submitted to Governor Walker and approved by the United States Treasury. Today, Wisconsin has 120 opportunity zones throughout the state, both in rural and urban communities. There are opportunity zones in all seven congressional districts and two tribal reservations.

Private investment is vital to economic development in these opportunity zones. Investors can place funds into a Qualified Opportunity Fund (QOF), which is incentivized as the tax on capital gains is deferred while money is in the fund. Further, the longer an investor keeps funds in the QOF the percentage of tax excluded from the deferred gain increases.

Assembly Bill 532 expands upon these savings for Wisconsin investors/taxpayers who fund Wisconsin projects. The legislation doubles the state tax incentives if the investments are held in a Wisconsin qualified opportunity fund. This encourages state investors to keep their dollars local, to spur economic development and job creation for Wisconsin communities.

Thank you for your time and consideration of AB 532.

Sincerely,

A handwritten signature in black ink that reads "Jill Billings". The signature is written in a cursive, flowing style.

Jill Billings
State Representative
95th Assembly District



Testimony on *Assembly Bill 532* before the
ASSEMBLY COMMITTEE ON WAYS AND MEANS
February 6, 2020
Wisconsin Economic Development Association

Good morning Chairman Macco and members of the committee. My name is Michael Welsh, and I am the legislative affairs director for the Wisconsin Economic Development Association. Thank you for the opportunity to testify today in favor of Assembly Bill 532. This important legislation will encourage Wisconsin investors to keep their wealth in Wisconsin and drive much-needed private capital to communities across the state.

WEDA is a statewide association representing over 425 public and private sector economic development professionals. We are dedicated to advancing economic prosperity in Wisconsin and providing our members with the necessary tools to encourage business expansion and promote private investment.

Communities across the state use a variety of approaches and programs to promote local economic growth and prosperity. The more tools a community has at their disposal, the better positioned they are for success.

One exciting new economic development and real estate investment tool is the federal Opportunity Zones incentive created by Congress in 2017 to attract private capital and spur investment and job creation in the country's most economically distressed communities.

Under the program, low-income community census tracts were used to determine eligible Opportunity Zones. Wisconsin has 120 Opportunity Zones, which are in every congressional district, 44 different counties and 60 municipalities across the state.

Unlike many other economic and community development programs, Opportunity Zones do not rely solely on taxpayer dollars to spur development and revitalization. Rather, they utilize tax incentives to drive investment to impactful projects in capital starved communities.

In exchange for investing in Opportunity Zone projects through qualified Opportunity Funds, investors are eligible for the following tax benefits:

- Temporary tax deferral – until December 31, 2026 – for capital gains reinvested in an Opportunity Fund.
- Reduction of their tax bill on the deferred capital gains by 10% if the investor holds their Opportunity Fund investment for at least five years. This reduction increases to 15% for investors that hold the investment for at least seven years.

- Exclusion from taxes on any gains realized from the investment in the Opportunity Fund, if the investor holds the investment for at least ten years.

Ultimately, the Opportunity Zones incentive aims to unlock billions of dollars in unrealized capital gains for reinvestment in Opportunity Zone projects, which include commercial and residential real estate development as well as business expansion and creation.

In 2018, Wisconsin incorporated the federal Opportunity Zones tax provisions into state law, which means the deferral and exclusion treatments apply to state income taxes.

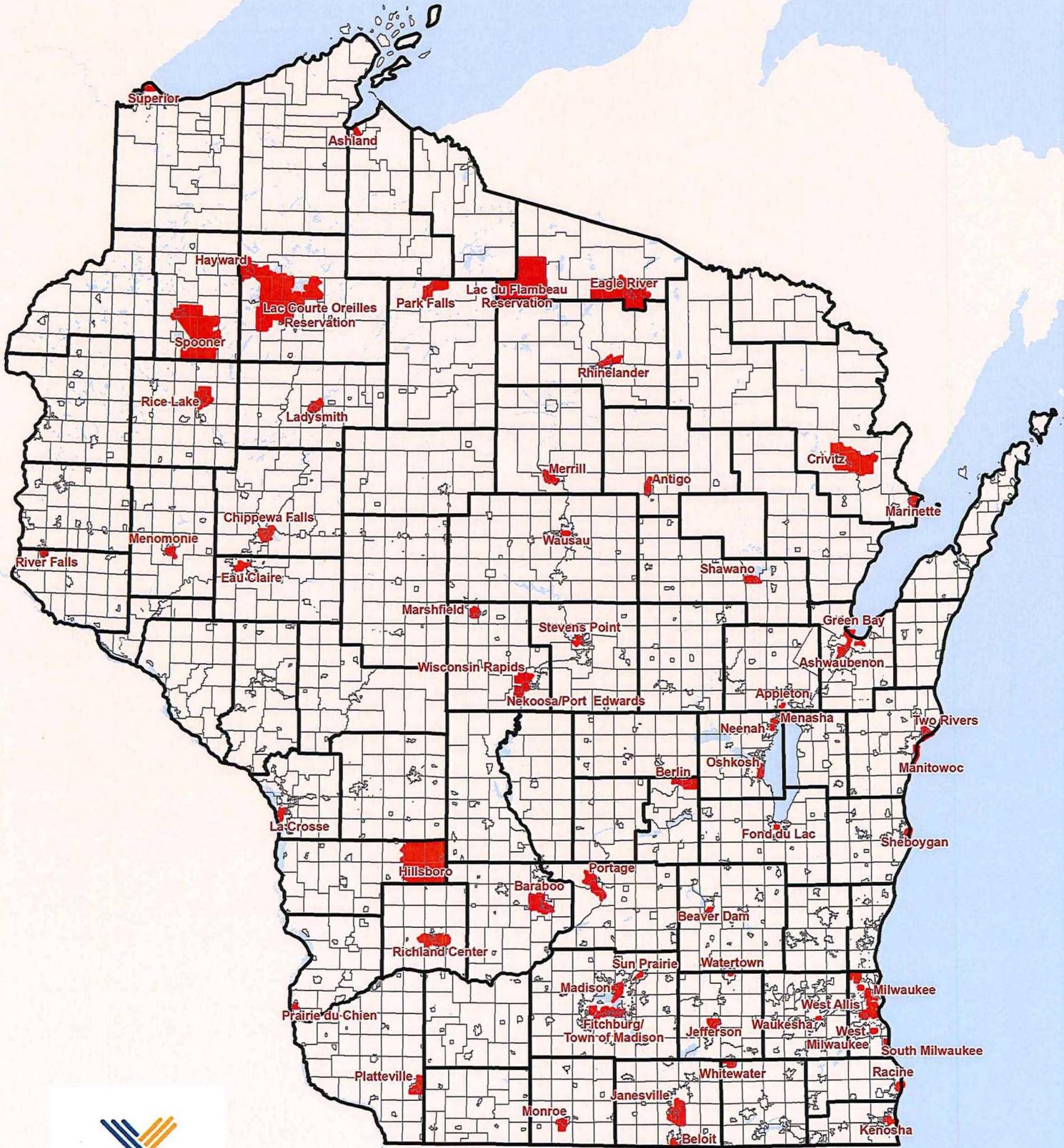
Assembly Bill 532 would double the Opportunity Zones capital gains tax reduction at the state level for investors who invest in Wisconsin Qualified Opportunity Funds – funds that hold at least 90% of their assets in Wisconsin Opportunity Zones. Under the bill, investors would be eligible for a 20% state capital gains tax reduction if they hold their investment in a Wisconsin Qualified Opportunity Fund for at least five years, and a 30% reduction after seven years.

The legislation will encourage Wisconsin investors to keep their investment dollars in Wisconsin, funneling much-needed capital to communities in both rural and urban parts of the state. It could also play a significant role in driving the development of much-needed workforce housing. As you know, Wisconsin's workforce housing crisis is a major contributing factor to the state's labor shortage, which remains the largest challenge facing Wisconsin employers.

It is also important to point out the legislation has no fiscal impact in the current biennium. The bill would cost the state \$1.5 million a year – for a total of \$4.5 million – between 2025 and 2027. However, that is a relatively small investment compared to the potential for new investment in development projects that will accelerate economic growth and job creation in Wisconsin.

Given the tremendous opportunity to leverage the federal Opportunity Zones incentive in Wisconsin to encourage investors to reinvest their wealth in Wisconsin communities, WEDA would encourage you to support AB 532. Thank you for your time and consideration. I would be happy to answer any questions.

Wisconsin Opportunity Zones





Opportunity Zones – *How They Work*

Opportunity Zones offer investors three primary incentives for putting their capital to work in low-income communities:

1. A Temporary Deferral

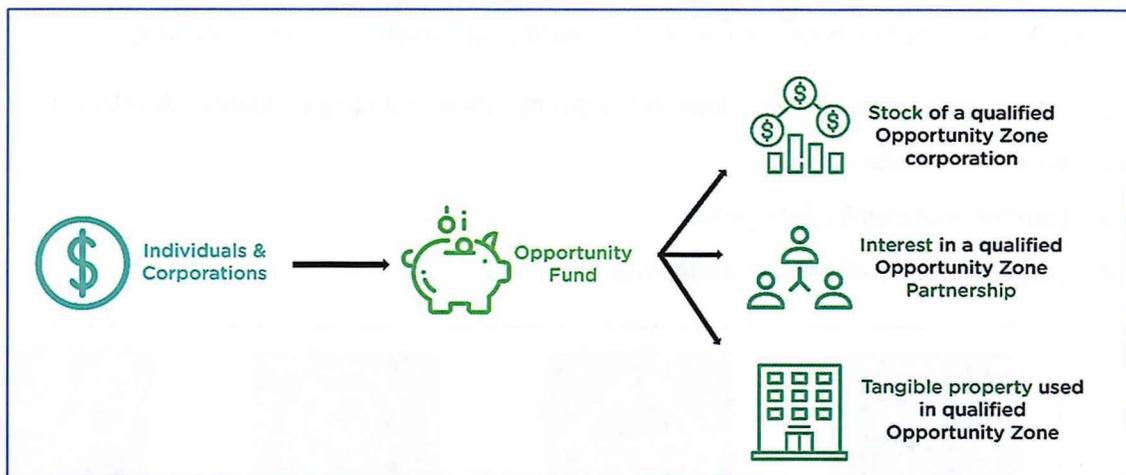
A temporary tax deferral for capital gains reinvested in an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the opportunity zone investment is sold or December 31, 2026.

2. A Step-Up in Basis

A step-up in basis for capital gains reinvested in an Opportunity Fund. The basis of the original investment is increased by 10% if the investment in the qualified opportunity zone fund is held by the taxpayer for at least 5 years, and by an additional 5% if held for at least 7 years. This means an investor can exclude up to 15% of the original gain from taxation.

3. A Permanent Exclusion from Taxable Income of Capital Gains

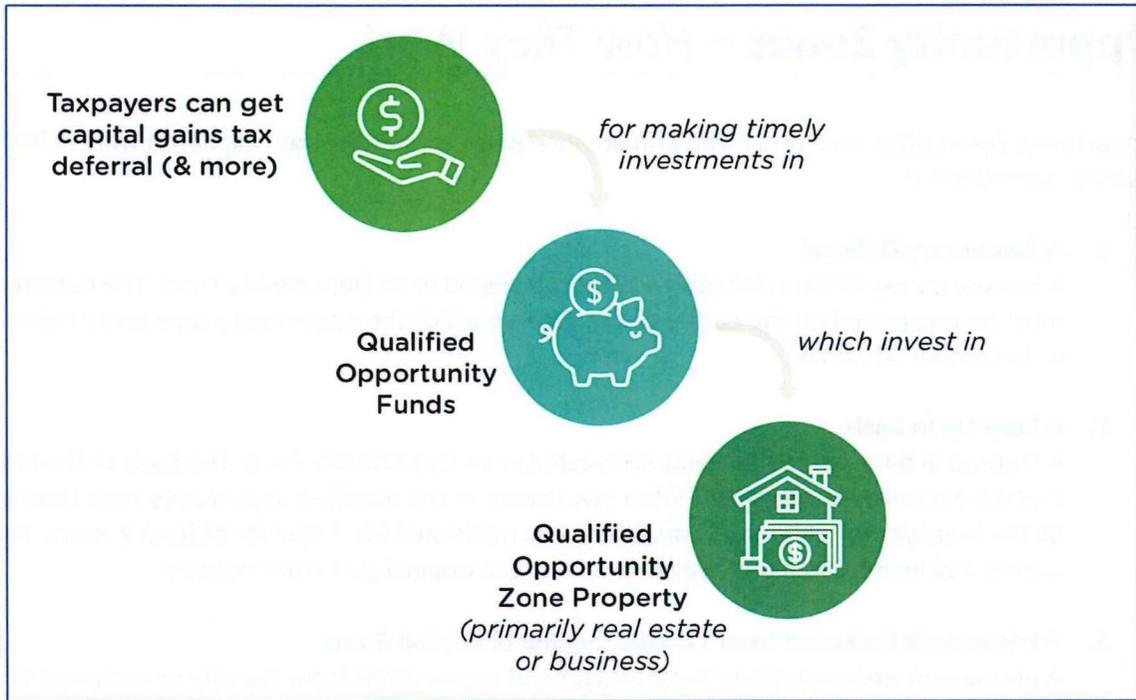
A permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in a qualified opportunity zone fund, if the investment is held for at least 10 years. (Note: this exclusion applies to the gains accrued from an investment in an Opportunity Fund, not the original gains).



Opportunity Funds:

Qualified Opportunity Funds are new private sector investment vehicles that invest at least 90 percent of their capital in qualifying assets in Opportunity Zones. U.S. investors currently hold trillions of dollars in unrealized capital gains in stocks and mutual funds alone—a significant untapped resource for

economic development. Funds will enable a broad array of investors to pool their resources in Opportunity Zones, increasing the scale of investments going to underserved areas.

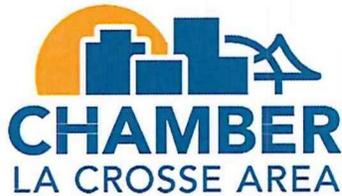


Investment Types:

Qualified Opportunity Funds can be invested in a variety of investment types, including:

1. Commercial real estate development and renovation, including residential development.
2. News businesses
3. Expansion of existing businesses
4. Large expansion of existing businesses





TESTIMONY

ASSEMBLY BILL 532 before the Assembly Committee on Ways and Means

FEBRUARY 6, 2020

La Crosse Area Chamber of Commerce

Good morning Chairman Macco and members of the committee. My name is Vicki Marksusen. I am CEO of the La Crosse Area Chamber of Commerce. On behalf of our 600 members, I am here to speak in favor of Assembly Bill 532.

As stated earlier, Opportunity Zones are designated to areas of low income as a tool to encourage development.

Nearly half of the City of La Crosse is in an Opportunity Zone due to the 100 year floor plain designation. This designation suppresses housing values that makes the area affordable to live. To elevate properties out of the floodplain designation requires investment. Opportunity Zones and the extra tax incentive this bill creates can spark catalytic development that:

- enhances property values
- creates a ripple effect of further business and neighborhood development
- diversifies household incomes in our communities
- increases revenue for the City to improve critical services, and
- reduces the flight of higher income families to areas outside the City in order to find the desired type of housing.

In short, Opportunity Zones can change communities one neighborhood at a time.

I sat in a meeting of businesses yesterday who spoke of the ripple effect of one \$10,000 façade improvement. Homes down the street added a fresh coat of paint. It sparked another business to not just improve the inside of their building, but to make exterior improvements. Imagine what one, high valued improvements could do through Opportunity Zones.

La Crosse's story is echoed across another 119 communities with Opportunity Zones. The zoning indicates areas needing special attention and neighborhood-changing development. Each of them, I am sure have compelling stories of need.

Investment by those other than current business or homeowners is critical.

Assembly Bill 532, that is before you, causes Wisconsin investors to choose La Crosse, to choose Wisconsin Rapids, to choose Rock County, and to choose 116 other areas who have compelling stories.

You have the tipping-point for choosing Wisconsin before you.

Please vote to approve Assembly Bill 532. Thank you.

Barron County Economic Development Corporation

www.barroncounty.com

715-637-6871

David Armstrong
Executive Director

BARRON

POPULATION
45,358

MEDIAN AGE
44.2

MEDIAN HOUSEHOLD INCOME
\$49,257
5.11% GROWTH

POVERTY RATE
11.5%

NUMBER OF EMPLOYEES
22,255
0.51% GROWTH

MEDIAN PROPERTY VALUE
\$145,500
3.26% GROWTH

RUSK

POPULATION
14,211

MEDIAN AGE
48.6

MEDIAN HOUSEHOLD INCOME
\$41,930
5.08% GROWTH

POVERTY RATE
15.2%

NUMBER OF EMPLOYEES
6,463
0.357% GROWTH

MEDIAN PROPERTY VALUE
\$106,300
0.854% GROWTH

SAWYER

POPULATION
16,384

MEDIAN AGE
49.7

MEDIAN HOUSEHOLD INCOME
\$43,565
4.05% GROWTH

POVERTY RATE
17.7%

NUMBER OF EMPLOYEES
7,254
2.59% GROWTH

MEDIAN PROPERTY VALUE
\$161,700
1.19% GROWTH

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David Armstrong
Executive Director

The Opportunity Zone process followed in Barron County was borrowed heavily from Local Initiatives Support Corporation, known as LISC.

We have identified 5 projects in Rice Lake totaling 59 million that may be influenced by today's legislation. This includes a 49 unit low to moderate income apartment complex in downtown Rice Lake.

Barron County completed a housing study late last year that identified the need for an additional 450 rental units and 1250 owned units. Barron County currently has 550 open jobs that cannot be filled unless additional workforce are found. Housing is needed for this as there are zero rental units available. Two manufacturers are looking to start additional shifts which is not possible at this time.

Similar needs exist in Rusk, Sawyer and Washburn Counties which are in the process of working through the steps shown below. In closing, additional finance tools are needed. We are asking you to make it possible and we will make it happen.

STEP

1

Hold a Stakeholder Meeting >

STEP

2

Embarking on a Plan for Work in the Opportunity Zones >

STEP

3

Incentives and Guardrails in the Opportunity Zones >

STEP

4

Collaborating to Build Pipeline & Leverage Local Expertise >

STEP

5

Ramp Up Your Investor Marketing >

STEP

6

Develop Impact Metrics & Encourage Transparency >



Badger State Opportunity Fund Supports AB 532

Opportunity Zones Incentivize Private-Sector Investment in Economically Distressed Areas

As part of the U.S. Tax Cuts and Jobs Act of 2017, the federal government enacted on a bipartisan basis the Opportunity Zones initiative—a strategy that reduces federal capital gains tax liability in exchange for long-term private-sector investment in economically distressed areas. Individuals, couples and entities investing through Qualified Opportunity Funds, like Badger State Opportunity Fund, may be eligible to receive federal tax benefits and enhance their fund-related investment returns if capital gains are used as the source of monies invested, including:

- **Deferral** of existing federal gains tax liability payment for up to 7 years on assets sold and proceeds invested in the Opportunity Fund within the past 180 days
- **Reduction** of existing federal capital gains tax liability by up to 15%
- **Elimination** of future federal capital gains tax liability for investments held at least 10 years

AB 532 Will Incentivize Investment in Wisconsin

Adoption of AB 532 would establish a state capital gains tax incentive to enhance the Opportunity Zones federal capital gains tax incentives. The legislation would reduce state capital gains tax liability for those investors willing to make long-term investments in one or more of Wisconsin's Opportunity Zones. Wisconsin is a great state in which to live, work, and invest. However, its Opportunity Zones are unlikely to produce the level of returns possible in markets along the East and West Coasts. Of the 196 Opportunity Funds listed in the NCSHA Opportunity Zone Fund Directory, only 2 specifically indicate a geographic focus on Wisconsin. Many national Opportunity Funds will not consider projects requiring less than \$20-\$50 million in equity. Few Wisconsin projects will reach that scale. AB 532 is critically important to attract investment in Wisconsin's Opportunity Zones and compete more effectively.

AB 532 Puts Wisconsin's Wealth to Work at Home

Without Wisconsin Opportunity Zones legislation to incentivize investment, Wisconsin's wealth may be incentivized to leave the state. As an example, Badger State Opportunity Fund met with a high-net-worth resident of Wisconsin who invested last year over \$1 million in capital gains into an Opportunity Fund on the coasts because of the relative attractiveness of the investment options outside the state. How much impact would that single investor's \$1 million private investment potentially have made for economically challenged areas of Wisconsin? Enacting AB 532 would incentivize keeping Wisconsin's wealth in Wisconsin and putting it to work here to build our economy.

Opportunity Zones Will Benefit Every Corner of Wisconsin

Opportunity Zones were designated in every corner of Wisconsin. The 120 Opportunity Zones are geographically distributed across 60 municipalities in 44 counties. Not only were Opportunity Zones designated in Wisconsin's largest urban communities, including Milwaukee, Madison, Green Bay, Kenosha, Racine, Appleton, Sheboygan, Manitowoc, Marinette, Eau Claire, La Crosse, Janesville, Beloit, Oshkosh, Stevens Point, and Superior, they also were designated in the state's more rural communities, such as Prairie du Chien, Nekoosa, St. Germain, Hayward, Antigo, Ashland, Ladysmith, Monroe, Crivitz, Eagle River, and Port Edwards. In fact, 39% of all Opportunity Zones were designated in rural areas, reflecting rural Wisconsin's relative population.

Badger State Opportunity Fund

Badger State Opportunity Fund is a Qualified Opportunity Fund, as defined by federal law. Inspired by the City of Racine and a coalition of other communities, Badger State Opportunity Fund has a mission of working with, and on behalf of, investors as well as the public and private sectors to aggregate quality projects, deploy capital profitably, and create more inclusive economic opportunity across Wisconsin's urban and rural communities. We are working in collaboration with investors, municipal officials, developers, chambers of commerce, state agencies, and financial institutions to accelerate economic development in areas that have not experienced as much growth.

The Best...

"I think the best social program is a job." President Ronald Reagan

Opportunity Zones and AB 532 will fuel future economic growth in the Badger State; incentivize the private sector to invest; and create jobs in Wisconsin's economically distressed areas, where residents really need them.

For More Information

For more information about how Opportunity Zones and AB 532 can benefit Wisconsin, please contact: William Martin, Chief Executive Officer, 414.350.4207, William.Martin@WIDiversified.com



FAQ: Opportunity Zones in Wisconsin

For information only: 2019 Assembly Bill 532/2019 Senate Bill 440

Creation of qualified opportunity zones under the 2017 Tax Cuts and Jobs Act has provided important incentives for investors to reinvest capital gains into distressed areas. The federal opportunity zone program provides a significant subsidy for investments – especially affordable housing.

Wisconsin's careful selection of opportunity zone locations has enhanced the prospects for success and encouraged developer interest in projects that reinforce community development priorities.

Q: What is WHEDA's involvement with opportunity zones?

A: At the creation of the program, Wisconsin Housing and Economic Development Authority staff researched how opportunity zones could be a resource for affordable housing. The expertise of staff members contributed to WHEDA's selection as the lead entity in conducting a comprehensive analysis and incorporating community feedback into selection of Wisconsin's 120 opportunity zones.

Q: How were the Wisconsin Opportunity Zones selected so that they would result in high-impact community investment including affordable housing?

A: To select the opportunity zone locations, WHEDA reviewed a wide range of statistics regarding qualifying census tracts; gathered public input from local elected, administrative, business, philanthropic, and civic leaders; and incorporated feedback from state and federal agencies. These included the Wisconsin departments of Administration and Children and Families; Wisconsin Economic Development Corp.; and the U.S. Department of Agriculture.

Through the process, 120 opportunity zones were selected. The zones included 60 municipalities with 83 in Community Development Financial Institutions Fund-defined areas of high housing need.

The zones included 75 locations in low income housing tax credit qualified census tracts; 34 in the City of Milwaukee and 35 in rural areas. Wisconsin was one of the

first five states to have its opportunity zones approved by the U.S. Department of the Treasury.

More information is available through the following link:

<https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx>

Q: How do opportunity zones support housing redevelopment?

A: The opportunity zone benefit is an important resource that can be combined with the federal affordable housing tax credit and Wisconsin affordable housing tax credits to stimulate more affordable housing developments.

To encourage combining opportunity zones with housing tax credits, WHEDA's tax credit scoring currently provides extra points for housing projects located in opportunity zones.

On a national level, a significant amount of current opportunity zone investment is in housing. Novogradac, a national accounting and valuation firm, has reported that some 69 percent of the investment in opportunity zones nationwide is coming from funds that include a focus on residential development.

Meanwhile, in its opportunity zone fund directory, the National Council of State Housing Agencies has identified more than 115 funds with an investment focus on housing and community development, a four-fold increase since the beginning of 2019.

Q: How do federal opportunity zones work with other affordable housing incentives?

A: The opportunity zone benefit can be blended with federal and the state affordable housing tax credits to support even more affordable housing. On tax credit deals, opportunity zones improve the return on investment of affordable housing deals by 2% to 3%.

It is important to note that opportunity zone investments do not have affordability requirements and can be used for any type of housing, in addition to businesses and other types of qualified opportunity zone property.

Contacts: Kim Plache, WHEDA deputy executive director, 608-267-2307, Kim.plache@wheda.com; Jennifer Sereno, WHEDA public affairs, 608-770-8084, Jennifer.sereno@wheda.com